CALIFORNIA TAX CREDIT ALLOCATION COMMITTEE

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DATE: January 29, 2013

TO: Low Income Housing Tax Credit Stakeholders

FROM: William J. Pavão, Executive Director

SUBJECT: Application Underwriting and Scoring Guidance

In light of 2013 regulation changes, California Tax Credit Allocation Committee (TCAC) staff has been asked to clarify how land and existing improvement values will be considered in underwriting and competitive scoring. The following guidance regards Sections 10327(c)(7) underwriting requirements, 10325(c)(1)(C) and 10325(c)(10) competitive scoring requirements, and 10322(h)(9) appraisal requirements. The following guidance is applicable to all competitive applications.

<u>Underwriting</u>

All applications' Sources and Uses Budget, both new construction and rehabilitation projects, should reflect actual land and improvements' acquisition costs. Such values should be supported by confirming sales or purchase agreement documentation. The only exception to this rule is when land and improvements are donated. In such cases, the donated property's appraised value should be entered as the acquisition cost in the Sources and Uses Budget. Otherwise, the appraised value should <u>not</u> be entered as the acquisition cost.

For applicants reflecting acquisition basis, the eligible basis amount carried over from acquisition costs must be the lesser of the purchase price or the "as is" appraised value as required by TCAC Regulation Section 10327(c)(7).

New construction projects other than those involving a bona fide third party sale or lease and <u>all</u> rehabilitation projects must provide an appraisal within the application (Section 10322(h)(9)). Such applications with acquisition costs exceeding the appraised value must explain the higher cost. Applications with non-arm's length transactions must demonstrate that the seller is not unduly benefiting from the higher purchase price.

Competitive Scoring

Regulation Section 10325(c)(1)(C) distinguishes between "prior publicly funded or subsidized loans to be assumed in the course of a proposed acquisition" and new public funding. Public funds points shall be awarded only for assumed principal balances of prior public loans. Interest accrued on prior public loans to be assumed shall not count competitively. Accrued interest shall not be considered in scoring assumed public debt, even where the original interest has been or is being recast as principal under a new loan agreement.

For rehabilitation and acquisition applications, the numerators for public funds scoring (Section 10325(c)(1)(C)) and final tie breaker scoring (Section 10325(c)(10)(A)) shall include only remaining principal balances from assumed public loans, if any. The Residential Development Cost denominators in each ratio shall include the acquisition costs listed in the Sources and Uses Budget described in "Underwriting" above. These will also be the values in the public funds scoring calculation.

Any questions about the guidance presented in this memo should be directed to the regional analyst prior to the tax credit application deadline. Contact information can be found on the TCAC website: http://www.treasurer.ca.gov/ctcac/assignments.pdf .